



Focus: HOPE
Celebrating Diversity Since 1968

May 22, 2007

Mary P. Levine
Acting General Counsel/Director of Legal Affairs
Michigan State Housing Development Authority
PO Box 30044
Lansing, MI 48909

Dear Ms Levine:

Focus: HOPE is pleased to submit these comments with respect to possible modifications to the Qualified Allocation Plan (QAP).

As you may know, Focus: HOPE is a civil and human rights organization with a mission to combat racism, poverty and injustice. Focus: HOPE's main campus is in the center of Detroit, near intersection of the Davison and Lodge Freeways. Despite Focus: HOPE's having invested over \$100 million in office, educational facilities and manufacturing plants along Oakman Boulevard between Linwood and Rosa Parks Boulevard, and despite its having state of the art manufacturing education and training programs, much work remains to be done to revitalize the neighborhoods around Focus: HOPE. Focus: HOPE and other community stakeholders are working together to make the community surrounding our main campus "a neighborhood of choice." This community, which includes the beautiful historic Oakman Boulevard district, is a microcosm of Detroit, suffering from severe population and corresponding housing stock losses that started mid-century and continue today.

To "jump start" community development in this area Focus: HOPE is working on several direct development efforts, as well as other supporting community building activities. Low Income Housing Tax Credits (LIHTC) are critical to the success of several "in the works" Focus: HOPE projects. Our comments are in large part based in the impact that we perceive the current QAP to have on these proposed projects, but are also rooted in our mission to combat racism, poverty and injustice. Our proposed changes follow.

Concern 1: Convert the Lottery System to a "Hybrid" System which Gives Credit for Merit and More Clearly Addresses Need.

"Once the Authority has determined which applications meet or exceed the threshold score, the Authority and representatives from the for-profit and non-profit development community will conduct a lottery to determine the order in which applications meeting the threshold score will be evaluated. Based on the order established by lottery, the Authority will evaluate applications representing approximately 150% of the available credit to be allocated under the preservation holdback, the small size holdback, and the special needs holdback, and in the general funding

round ...Once the credit authority for each category in each funding round has been reserved, detailed evaluations of remaining applications will cease and any applications not reviewed must be submitted in a subsequent funding round for further consideration." Michigan State Housing Development Authority 2005-2006 QAP, Section IV(A), p 7.

The lottery system was supposedly instituted to decrease the amount of staff time needed for evaluation and to increase the level of equity in the process. However, we question whether it has achieved either of these goals.

We believe strongly that the current lottery system is inequitable. The system does not result in the awarding of projects based on either of the two appropriate allocation methods: merit (strength of project) or need. Once plans meet the minimum level of quality, they are chosen not based on merit or quality, nor are they chosen based upon an allocation which would serve the greatest need, but rather they are chosen by chance. This process eliminates any incentive for plans to exceed the minimum threshold by giving high scoring projects and minimum level scoring projects the same chance to be picked.

Recommendation:

First, we would urge MSHDA to do a complete analysis of the results of the lottery allocation, particularly identifying the racial and economic makeup of the block groups and census tracts where the projects selected have been located, and providing a thorough analysis of how the allocation process is addressing need. Secondly, as an alternative to the lottery system, MSHDA should implement a hybrid system, that would provide incentives for better project. The first part of a funding round should evaluate applications on a purely performance basis. In this initial round, applicants would be evaluated in order of total points, highest to lowest. After a certain percentage of the credit had been reserved, say 60%, the remaining applications which meet the minimum quality standard could go into a lottery. This hybrid approach would have the positive effect of providing a strong incentive for applicants to create better quality, higher scoring plans. Additionally, this hybrid system takes into consideration the needs of lower scoring projects which meet threshold and gives them a fair chance to receive credit, despite their low score.

Concern 2: Staff Levels

Based on our analysis of the published information, the time period between the receipt of applications and the announcement of credit award has not shortened since the 2005-2006 QAP, but rather lengthened considerably.

Recommendation:

We assume that this problem is rooted in an understaffing of the LIHTC program, and recommend that MSDHA undertake a thorough analysis of staffing needs, and corresponding funding availability, and provide this information to the LIHTC development community, with some possible approaches for resolving the problem.

Concern 3: Project Based Subsidies

"In allocating low income housing tax credit dollar amounts among selected projects, the allocation plan shall give preference to projects serving the lowest income tenants and projects obligated to serve qualified tenants for the longest periods"

Michigan's Public Act 346 of 1966, Section 22b(4)

In order to fulfill the goal of the LIHTC program, projects provide quality housing to the lowest incomes. However, due to current market conditions, and the lack of availability of alternative funding sources, many projects which meet these goals become financially unfeasible. LIHTC was created to help fill these gaps, but is no longer sufficient to address the entire gap for many projects. Specifically in Detroit, many projects previously utilized HOME dollars to help subsidize projects in conjunction LIHTC allocations. This allowed projects to provide much needed quality housing to those least able to afford it. However the HOME dollars are no longer widely available and as a result, many excellent projects serving those at the lowest incomes are not financially viable.

Recommendation:

The market in Southeastern Michigan, and specifically in Detroit, calls for gap financing beyond the LIHTC. In order for applicants to continue to fulfill the purpose of LIHTC, MSHDA should offer project based subsidies in addition to the credit. This would secure and stabilize the projects which are serving MSHDA's goal of creating viable long-term housing for the lowest incomes.

Concern 4: Strategic Alignment

"The State of Michigan is dedicated to ensuring that low-income persons and families have access to safe, sanitary housing, through both new construction and preservation of the existing affordable housing stock. Michigan's LIHTC program assists the development of affordable housing, but also reduces blight, provides recreational and communal facilities to low income residential areas, promotes local business enterprises, and revitalizes and diversifies the State's overall economy." MSHDA 2005-2006 QAP, Section I, p 4.

In order to achieve the overall goals of the LIHTC program, the QAP must be strategically aligned with other programs across the State. State initiatives and other MSHDA programs should be reinforced by the LIHTC. There must be a comprehensive approach to providing affordable housing which includes various programs working in conjunction to achieve shared goals. The LIHTC QAP should reinforce the goals of existing programs and state initiatives. Currently these connections in terms of credit allocation and program function are not always apparent.

Recommendation:

The LIHTC program should identify strategic linkages, and award appropriate point increases based on programs such as the Cities of Promise and other strategic state initiatives.

Concern 5: Cool Cities Set Aside

"Approximately 5% of the annual tax credit authority will be held for Cool Cities developments. Developments qualifying for the Cool Cities holdback will be limited to projects of 24 or fewer

units (including manager's unit, if provided) within a designated Cool Cities neighborhood."
MSHDA 2005-2006 QAP, Section IV(B), p 8.

The Cool Cities program is an innovative and much needed program in Michigan, which LIHTC has acknowledged and supported by designating a 5% holdback. The Cool Cities program shares many of LIHTC overall program goals in terms of revitalizing neighborhoods. As the number and power of Cool Cities in Michigan has increased, so too should the Cool Cities holdback. The Cool Cities program would be greatly reinforced by an increase in holdback amount. The State is already increasing support and grant funding to select cities through the Cool Cities program. It behooves the LIHTC program to increase the holdback for these areas as well in order to increase the amount of quality low income housing in these areas of revitalization.

Recommendation:

The 2008 QAP should increase the Cool Cities holdback to 10% to reflect the support of the State sponsored program, the increasing number of Cool Cities, and the need for increased affordable housing in these areas.

Conclusion

Focus: HOPE needs LIHTC to make our community "a community of choice", for work, live and play. We need MSDHA to continue to partner with us and provide solutions that

- increase incentives to create high quality projects,
- provide a fair and equitable credit allocation,
- speed the review process,
- increase the financial feasibility of deep targeting, and
- strategically align with State and MSHDA goals and initiatives.

We would be pleased to meet with you to elaborate our concerns and recommendations about the potential changes to the 2005-2006 QAP. Please do not hesitate to contact the undersigned should you have any questions with respect to the above.

Sincerely,



Deborah E. Fisher
Manager, Community and Economic Development Department